

CITY OF KNOXVILLE
KNOXVILLE, IOWA

MUNICIPAL WATER WORKS FUND

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2012

C O N T E N T S

	Page
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT	4-5
BASIC FINANCIAL STATEMENTS:	
Exhibit	
Government-wide Financial Statements:	
A Statement of Activities and Net Assets – Cash Basis	6
Proprietary Fund Financial Statements:	
B Statement of Cash Receipts, Disbursements and Changes in Cash Balances	7-9
Fiduciary Fund Financial Statements:	
C Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Agency Funds	10
Notes to Financial Statements	11-16
OTHER INFORMATION	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – Proprietary Funds	17
Notes to Other Information – Budgetary Reporting	18
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	19-20
SCHEDULE OF FINDINGS	21-22

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND

WATER WORKS OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Merle Vickroy	Trustee - Chairman	April, 2015
Dwight Sommer	Trustee	April, 2017
Richard Randol	Trustee	April, 2013
Brian Bailey	General Manager	December 31, 2012
Michael Lane	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
City of Knoxville Municipal Water Works Fund
Knoxville, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville Municipal Water Works Fund, as of and for the year ended June 30, 2012, which collectively comprise the Water Work's basic financial statements listed in the table of contents. These financial statements are the responsibility of Water Work's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above presented fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville Municipal Water Works Fund as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2012 on our consideration of the Water Works internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Water Works has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compose the Water Work's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the ten years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The budgetary comparison information on pages 17 through 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Knoxville, Iowa
September 21, 2012

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
As of and for the year ended June 30, 2012

	<u>Disbursements</u>	<u>Program Receipts Charges for Services</u>	<u>Net (Disbursements) Receipts</u>
Functions/Programs:			
Business-Type Activities:			
Water	\$ <u>1,237,753</u>	\$ <u>1,522,128</u>	\$ <u>284,375</u>
General receipts:			
Unrestricted investment earnings			96
Rents collected			17,548
Miscellaneous			<u>67,237</u>
Total general receipts			<u>84,881</u>
Change in cash basis net assets			369,256
Cash basis net assets beginning of year			<u>1,070,105</u>
Cash basis net assets end of year			\$ <u>1,439,361</u>
Cash basis net assets unrestricted			\$ <u>1,439,361</u>
See notes to financial statements.			

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH
BALANCES PROPRIETARY FUND
As of and for the year ended June 30, 2012

	Enterprise Fund <u>Water Operating Fund</u>
Operating receipts:	
Use of money and property:	
Rent	\$ <u>17,548</u>
Charges for services:	
Sale of water	1,406,567
Sewer collection fee	50,000
Penalty fees	6,819
Customer service	741
Sales tax collected	<u>58,001</u>
	<u>1,522,128</u>
Miscellaneous:	
Utility credit	11,960
Reimbursements	31,214
NSF check charges	1,709
Merchandise sales	10,778
Other	209
Disconnect notices and fees	8,660
Insurance premium refunds	<u>2,707</u>
	<u>67,237</u>
Total operating receipts	<u>1,606,913</u>

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH
BALANCES PROPRIETARY FUND
As of and for the year ended June 30, 2012

	Enterprise Fund <u>Water Operating Fund</u>
Operating disbursements:	
Business Type Activities:	
Administration:	
Salaries	\$ 108,882
Payroll taxes and IPERS	17,047
Employee insurance	75,610
Training and meetings	2,472
Analysis fees	2,029
Insurance	59,982
Audit fees	5,525
Publications	1,331
Maintenance contract	21,994
Memberships and fees	2,615
Engineering, legal, and consulting	14,028
Board annual fees	750
Supplies and miscellaneous	30
	<u>312,295</u>
Accounting and Collections:	
Salaries	98,660
Payroll taxes and IPERS	14,444
Office supplies	7,351
Utilities and telephone	2,173
Postage	21,847
Janitorial service	2,450
Sales tax remitted	56,941
Banking and collection fees	3,187
Miscellaneous	797
	<u>207,850</u>

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH
BALANCES PROPRIETARY FUND
As of and for the year ended June 30, 2012

	Enterprise Fund <u>Water Operating Fund</u>
Operating disbursements (continued):	
Business Type Activities (continued):	
Plant and operation distribution:	
Salaries	\$ 284,005
Payroll taxes and IPERS	41,948
Electricity and gas	85,133
Chemicals	61,274
Gasoline and fuel	12,726
Maintenance and supplies	46,450
Sand, rock, and gravel	18,011
Distribution maintenance	<u>77,869</u>
	<u>627,416</u>
Other:	
Capital distribution projects	44,990
Capital project maintenance	36,202
Economic development	<u>9,000</u>
	<u>90,192</u>
Total operating disbursements	<u>1,237,753</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>369,160</u>
Non-operating receipts:	
Interest on investments	<u>96</u>
Excess (deficiency) of receipts over (under) disbursements	369,256
Cash balance beginning of year	<u>1,070,105</u>
Cash balance end of year	\$ <u><u>1,439,361</u></u>
Cash basis fund balance unreserved	\$ <u><u>1,439,361</u></u>
See notes to financial statements.	

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
COMBINING STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH
BALANCES AGENCY FUNDS
Year Ended June 30, 2012

	<u>Customer Deposits</u>	<u>Sanitary Sewer</u>	<u>Total</u>
Receipts:			
Charges for services:			
Sanitary sewer receipts	\$ -	\$ 2,189,039	\$ 2,189,039
Miscellaneous:			
Customer deposits	13,450	-	13,450
Total receipts	<u>13,450</u>	<u>2,189,039</u>	<u>2,202,489</u>
Disbursements:			
Agency Remittances:			
Remittances to City	-	2,189,039	2,189,039
Customer deposits reimbursed	12,540	-	12,540
Total disbursements	<u>12,540</u>	<u>2,189,039</u>	<u>2,201,579</u>
Excess (deficiency) of receipts over (under) disbursements	910	-	910
Balance beginning of year	<u>41,306</u>	-	<u>41,306</u>
Balance end of year	<u>\$ 42,216</u>	<u>\$ -</u>	<u>\$ 42,216</u>

See notes to financial statements.

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies

The City of Knoxville Municipal Water Works Fund is an independent department and a component unit of the City of Knoxville. The Water Works operates under an appointed Board of Trustees. The Water Works Department provides water service to the residents of Knoxville, Iowa, located in Marion County.

A. Reporting Entity

For financial reporting purposes, the Municipal Water Works Funds of the City of Knoxville, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The Water Works has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Water Works, are such that exclusion would cause the Water Works financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Water Works to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Water Works. These statements do not include any other City of Knoxville funds or transactions.

B. Basis of Presentation

Government-wide Financial Statements – The statement of activities and net assets cash basis reports information on all of the nonfiduciary activities of the primary government, the Water Works Fund, and any component units. For the most part, the effect of interfund activity has been removed from this financial statement. The statement demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identified with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program receipts are reported instead on general receipts.

Fund Financial Statements – Separate financial statements are provided for proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Water Works reports the following major proprietary fund:

The Enterprise, Water Operating Fund accounts for the operation and maintenance of the City's water system.

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies

B. Basis of Presentation (continued)

Additionally, the Water Works reports the following fund type:

Fiduciary Funds:

Agency Funds are utilized to account for monies and properties received and held by the Water Works in a trustee capacity as an agent for individuals, private organizations, certain jointly governed organizations, other governmental entities and/or other funds.

C. Basis of Accounting

The Municipal Water Works Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Water Works are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Pooled Investments

The Water Works's deposits at June 30, 2012 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Water Works is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Works's Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investments companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 2. Cash and Pooled Investments (continued)

The Water Works investments at June 30, 2012 are as follows:

Type	Amortized Cost
Iowa Public Agency Investment Trust	\$ 3,818

The Water Works investments in the Iowa Public Agency Investment Trust are not subject to risk categorization and are valued at amortized cost pursuant of Rule 2a-7 under the Investment Company Act of 1940.

Note 3. Pension and Retirement Benefits

The Water Works contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% of their annual salary and the Water Works is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Water Works's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$35,778, \$30,616, and \$29,741, respectively, equal to the required contributions for each year.

Note 4. Other Postemployment Benefits (OPEB)

Plan Description – The Water Works participates in a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. The Water Works has 8 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self-insured plan with Wellmark through the City of Knoxville. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The plan is funded by City contributions and is administered by Group Services, Inc. The City assumes liability for claims between \$250 and \$2,500 for single coverage and \$500 and \$5,000 for family coverage. Claims in excess of the deductible are insured through the purchase of insurance. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$443 for single coverage and \$1,075 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the Water Works contributed \$61,990, retirees contributed \$13,620, and active plan members eligible for benefits contributed \$5,575 to the plan.

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 5. Compensated Absences

Water Works's employees accumulate vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the Water Works until used or paid.

Water Works's employees accumulate sick leave hours for subsequent use. A percentage of the value of sick leave accrued at retirement will be applied to payment of health insurance premiums after retirement. The applicable amounts are 75% for employees hired prior to July 1, 1980 and 50% for employees hired after July 1, 1980.

One employee retired during the year ended June 30, 2012 with sick leave benefits of \$67,935. This leaves three retired employees and their balance is being used to pay the monthly health insurance premiums until such time as the balance has been used. The premiums paid for the year ended June 30, 2012 were \$13,620. The balance at June 30, 2012 is \$93,017.

The Water Work's maximum liability for unrecognized accrued employee benefits has been computed based on rates of pay as of June 30, 2012 and is as follows:

<u>Type of Benefits</u>	<u>Amount</u>
Vacation	\$ 37,127
Sick Leave	92,585
Comp Time	<u>391</u>
Total	<u>\$ 130,103</u>

Note 6. Risk Management

The Water Works is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6. Risk Management (continued)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Water Works's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Water Works's contribution to the Pool for the year ended June 30, 2012 was \$47,596.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Water Works does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2012, no liability has been recorded in the Water Works's financial statements. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contribution. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Water Works also carries insurance purchased from Iowa Municipalities Workers Compensation Association (IMWCA) for coverage associated with workers compensation in the amount of \$1,000,000. The Water Works assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from this risk have not exceeded insurance coverage in any of the past three fiscal years.

The Water Works purchased coverage from another insurer for employee blanket bond in the amount of \$25,000.

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Sanitary Sewer Receipts

The Water Works assesses and collects sanitary sewer charges for the City of Knoxville, Iowa. The receipts from collections from customers and remittances to the City of Knoxville are accounted for in the Agency – Sanitary Sewer Receipts Fund.

A rate increase to two commercial accounts were not properly assessed. The Water Works has agreed to reimburse the City of Knoxville \$8,417 of sewer charges that the Water Works will not be able to collect from the customers. The Water Works will reimburse the City of Knoxville in the fiscal year ending June 30, 2013.

Note 8. Operating Lease

The Knoxville Water Works is leasing equipment from Pitney Bowes which expires in fiscal year ending June 30, 2016. The Water Works makes quarterly rental payments of \$1,255. These rental payments will be \$1,085 beginning fiscal year 2013. The rental payments disbursed during the year ended June 30, 2012 totaled \$5,019.

Details of the operating lease are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2013	\$ 4,339
2014	4,339
2015	4,339
2016	<u>4,339</u>
	<u>\$ 17,356</u>

Note 9. Construction and Other Commitments

The City of Knoxville has approved contracts that include projects that the Water Works will reimburse the City for. These two projects, West Sanitary Sewer Improvement and Robinson Street, are projects that could total \$366,631, which the Water Works would be obligated to reimburse the city when completed.

The Water Works has also contracted engineering services for downtown streetscape water main construction in the amount of \$26,181 of which \$13,205 has been paid.

The Water Works has also contracted engineering services for the West Pleasant Street Water Main Reconstruction Project not to exceed \$12,800 of which \$8,978 has been paid.

The Water Works has approved an agreement with the City of Knoxville to support the economic development activities in and for the City of Knoxville, Iowa is in the best interest of both entities. The Water Works will contribute \$25,000 annually to an economic development fund. The agreement shall remain in full force for a period of five years, however, either entity may terminate this agreement by giving the other entity one years notice of their intention to terminate said agreement. As of June 30, 2012 nothing has been contributed by the Water Works.

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – PROPRIETARY FUNDS
Other Information
Year Ended June 30, 2012

	Actual	Reclassification and Adjustments	Net	Original and Final Budgeted Amounts	Budget to Net Variance
Receipts:					
Water:					
Use of money and property	\$ 17,644	\$ -	\$ 17,644	\$ 17,000	\$ 644
Charges for services	1,522,128	-	1,522,128	1,410,000	112,128
Miscellaneous	80,687	(13,450)	67,237	48,000	19,237
Total receipts	<u>1,620,459</u>	<u>(13,450)</u>	<u>1,607,009</u>	<u>1,475,000</u>	<u>132,009</u>
Disbursements:					
Business type activities:					
Water	<u>1,250,293</u>	<u>(12,540)</u>	<u>1,237,753</u>	<u>1,854,000</u>	<u>616,247</u>
Excess (deficiency) of receipts over (under) disbursements	370,166	(910)	369,256	(379,000)	<u>\$ 748,256</u>
Balance beginning of year	<u>1,111,411</u>	<u>(41,306)</u>	<u>1,070,105</u>	<u>844,630</u>	
Balance end of year	<u>\$ 1,481,577</u>	<u>\$ (42,216)</u>	<u>\$ 1,439,361</u>	<u>\$ 465,630</u>	

See accompanying independent auditor's report.

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
NOTES TO OTHER INFORMATION – BUDGETARY REPORTING
June 30, 2012

The budgetary comparison is presented in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgeting perspective differences resulting from not being able to present comparisons for the Enterprise Fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
City of Knoxville Municipal Water Works Fund
Knoxville, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville Municipal Water Works Fund as of and for the year ended June 30, 2012, which collectively comprise the Water Works basic financial statements listed in the table of contents and have issued our report thereon dated September 21, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with another comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Knoxville Municipal Water Works Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit we considered City of Knoxville Water Works internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not the purpose of expressing an opinion on the effectiveness of City of Knoxville Water Works internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Knoxville Water Works internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Knoxville Water Works financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Knoxville Municipal Water Works Funds financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Water Works's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Water Works. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Knoxville Water Works responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Organization's responses, we did not audit City of Knoxville Water Works responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Knoxville and other parties to whom the City of Knoxville Water Works may report and is not intended to be and should not be used by anyone other than the specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Knoxville Water Works during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Knoxville, Iowa
September 21, 2012

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part I: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

- I-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. With only two individuals in the office, it is necessary on numerous occasions for the same individual to prepare water billings, receive cash, prepare the deposits, post collections to customer accounts, and prepare payroll and disbursements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we believe the Board should be aware of the situation and, as conditions change, review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We are aware of the situation, however with the current staffing we do not believe there is a practical way of improving the segregation of duties.

Conclusion - Response accepted.

- I-B-12 Revenue Rate Changes – The Water Works determined that sewer rate increases for two commercial accounts were not properly charged over a two year period. Because of the length of time they were only able to recoup the rate increases effective for the commercial accounts current fiscal year.

Recommendation – Print outs of rate changes should be made before the bills are sent to customers. An individual not responsible for inputting the rates should verify, sign off and retain the document. During the year the rates could be rechecked to verify that no changes have been made.

Response - We agree that the recommendation will allow the Water Works to more timely discover any rate issues and will implement the recommendation.

Conclusion - Response accepted.

CITY OF KNOXVILLE
MUNICIPAL WATER WORKS FUND
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

- 1) Certified Budget - Disbursements during the year ended June 30, 2012 did not exceed the amount budgeted in the business type activities function.
- 2) Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 3) Travel Expense - No disbursements of Water Works's money for travel expenses of spouses of Water Works's officials or employees were noted.
- 4) Business Transactions – No business transactions between Water Works and Water Works's officials or employees are noted.
- 5) Bond Coverage - Surety bond coverage of Water Works's officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 6) Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 7) Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provision of Chapter 12B and 12C of the Code of Iowa and the Water Works's investment policy.